



Brian J. Benison  
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September 9, 2002

EX PARTE OR LATE FILED  
RECEIVED

SEP - 9 2002

FEDERAL COMMUNICATIONS COMMISSION  
OFFICE OF THE SECRETARY

**Memorandum of Ex Parte Presentation**

Marlene H. Dortch, Secretary  
Federal Communications Commission  
445 12<sup>th</sup> Street, SW  
Washington, DC 20554

Re: CC Docket No. 01-338, Review of the Section 251 Unbundling Obligations of Incumbent Local Exchange Carriers;  
CC Docket No. 96-98, Implementation of the Local Competition Provisions in the Telecommunications Act of 1996; and  
CC Docket No. 98-147, Deployment of Wireline Services Offering Advanced Telecommunications Capability

Dear Ms. Dortch:

On September 6, 2002, Edward Whitacre, Chairman and Chief Executive Officer, William Daley, President; Randall Stephenson, Senior Executive Vice President and Chief Financial Officer; James D. Ellis, Senior Executive Vice President and General Counsel; and James C. Smith, Senior Vice President,\* representing SBC Telecommunications, Inc., met separately with the following FCC Commissioners and respective staff members:

- Commissioner Kathleen Q. Abernathy and Senior Legal Advisor Bryan Tramont;
- Commissioner Michael J. Copps and Senior Legal Advisor Jordan Goldstein; and
- Commissioner Kevin J. Martin, Senior Legal Advisor Dan Gonzalez and Special Assistant for Legislative and Governmental Affairs Emily Willeford

The purpose of the meeting was to discuss issues associated with the financial and investment impacts of the UNE Platform. The attached material was discussed during the course of the meeting.

Please contact the undersigned at (202) 326-8847 should you have any questions.

Sincerely,

A handwritten signature in black ink, appearing to be "L. Q. D." with a stylized flourish at the end.

Attachments

cc: Commissioner Abernathy (w/o attachments)  
Commissioner Copps (w/o attachments)  
Commissioner Martin (w/o attachments)  
J. Goldstein (w/o attachments)  
D. Gonzalez (w/o attachments)  
B. Tramont (w/o attachments)  
E. Willeford (w/o attachments)



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E. Willeford (w/o attachments)

# **UNE-P: Impacts and Implications**

Prepared for the  
Federal Communications Commission



SBC Communication

# **Agenda**

**Overview**

**Ed Whitacre**

**Financial Review**

**Randall Stephenson**

- Financial Trends
- UNE-P Impacts

**Summary**

**Bill Daley**



# Overview

Ed Whitacre  
Chairman and Chief Executive Officer  
SBC Communications Inc.

# **Financial Review**

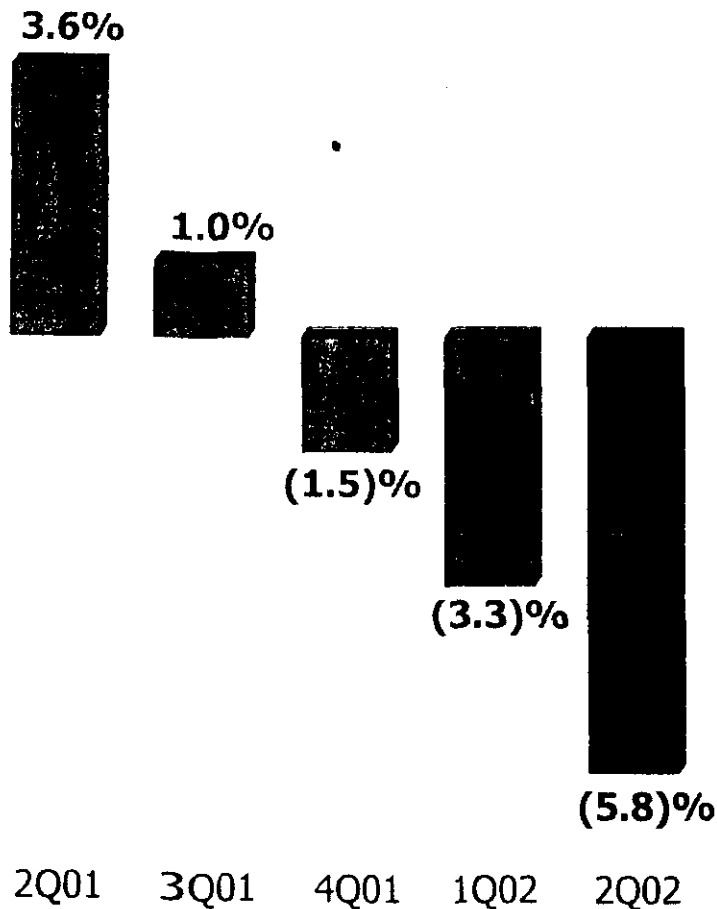
- Financial Trends**

- UNE-P Impacts

Randall Stephenson  
Chief Financial Officer  
SBC Communications Inc.

# Wireline Revenues

**SBC Wireline Revenues,  
YOY Growth Rates**



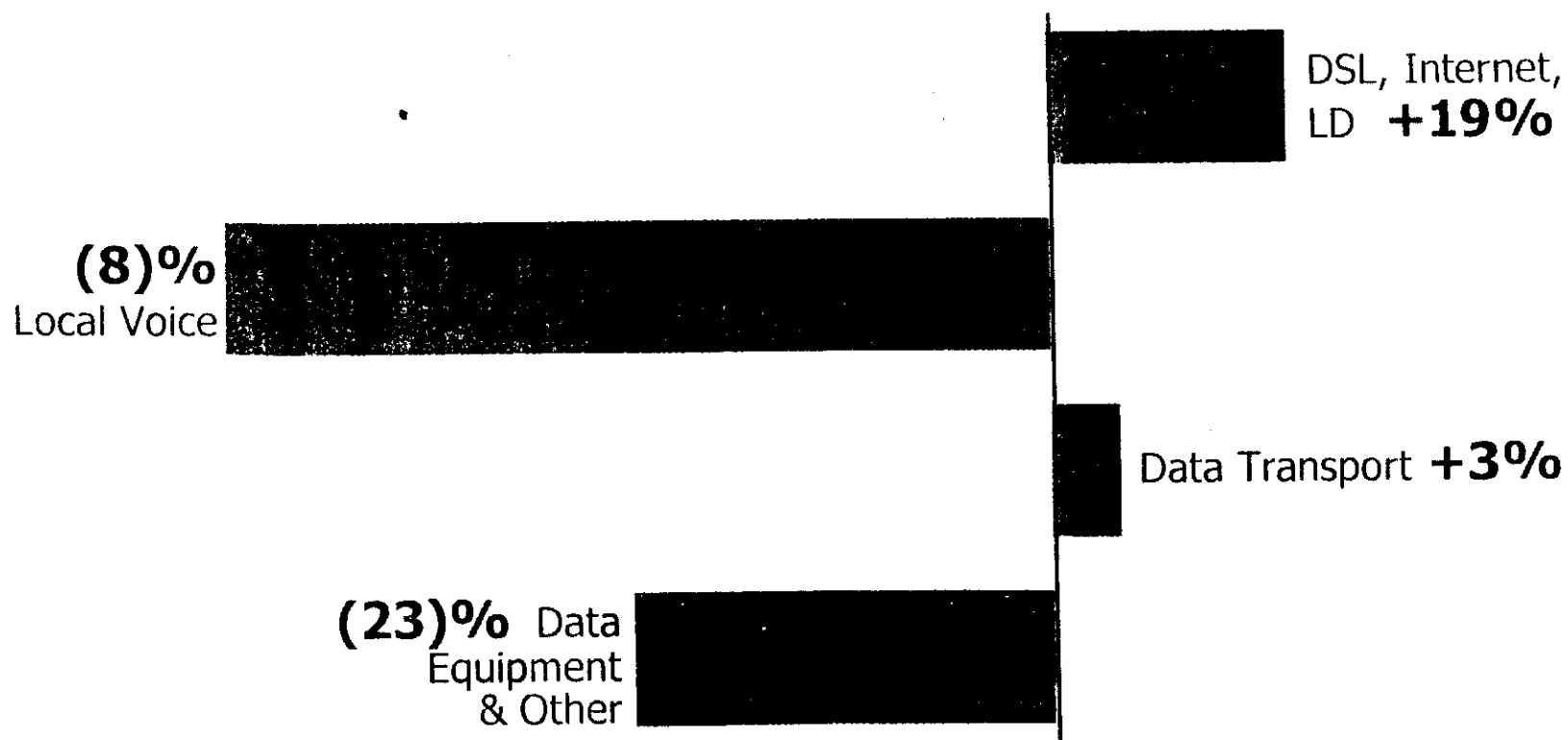
Down more than \$1 billion over the past three quarters.

More than half of that loss came in the most recent quarter.

Assuming annual revenue declines continue at current pace (5.8)% -- no further acceleration -- over the next four quarters, we will lose another \$2.3 billion from our wireline revenue stream.

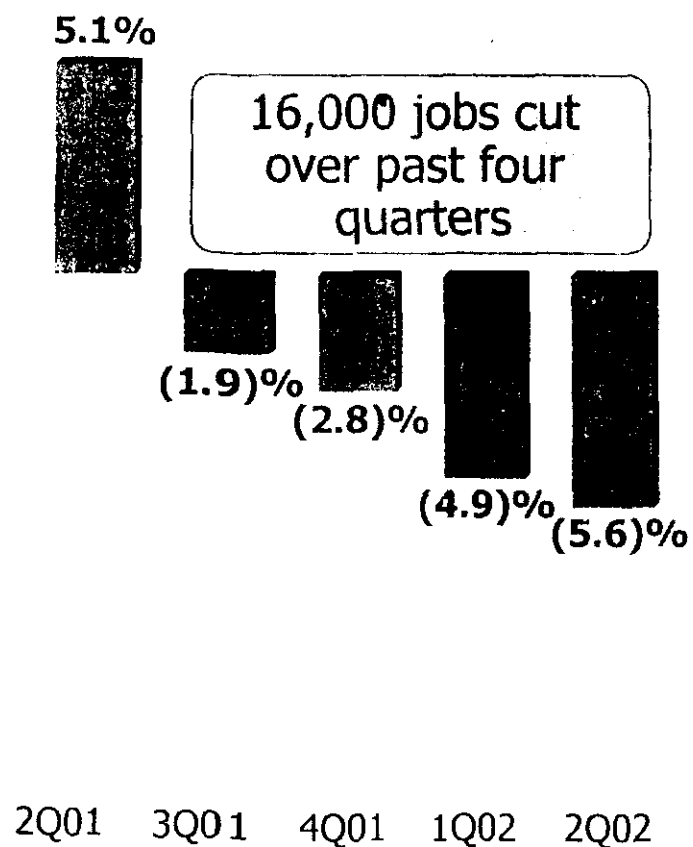
# Local Voice Driving Revenue Decline

2Q02/2Q01 Changes By Product Group

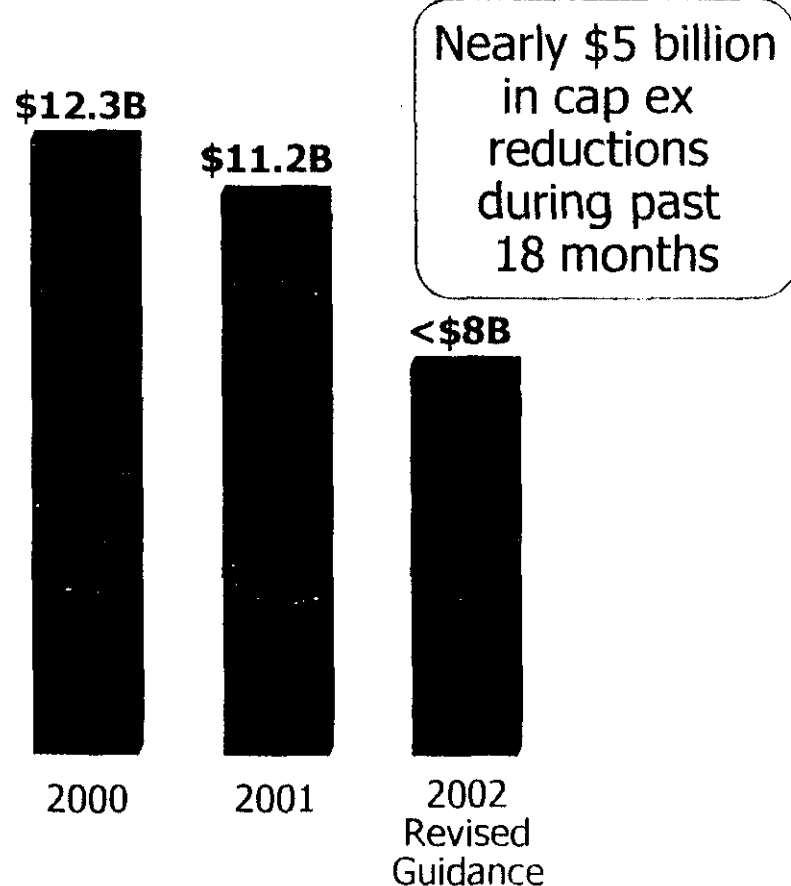


# Cutbacks in Jobs and Investment

**SBC Wireline Cash Operating Expenses,  
YOY Growth Rates**



**SBC Annual Capital Investment**



# A Shrinking Business

## SBC Wireline Results

|                             | 2Q02/2Q01 |
|-----------------------------|-----------|
| Revenues                    | (5.8)%    |
| Cash Operating Expenses     | (5.6)%    |
| Depreciation & Amortization | 1.2%      |
| Operating Income            | (12.6)%   |
| Capital Investment          | (41)%     |

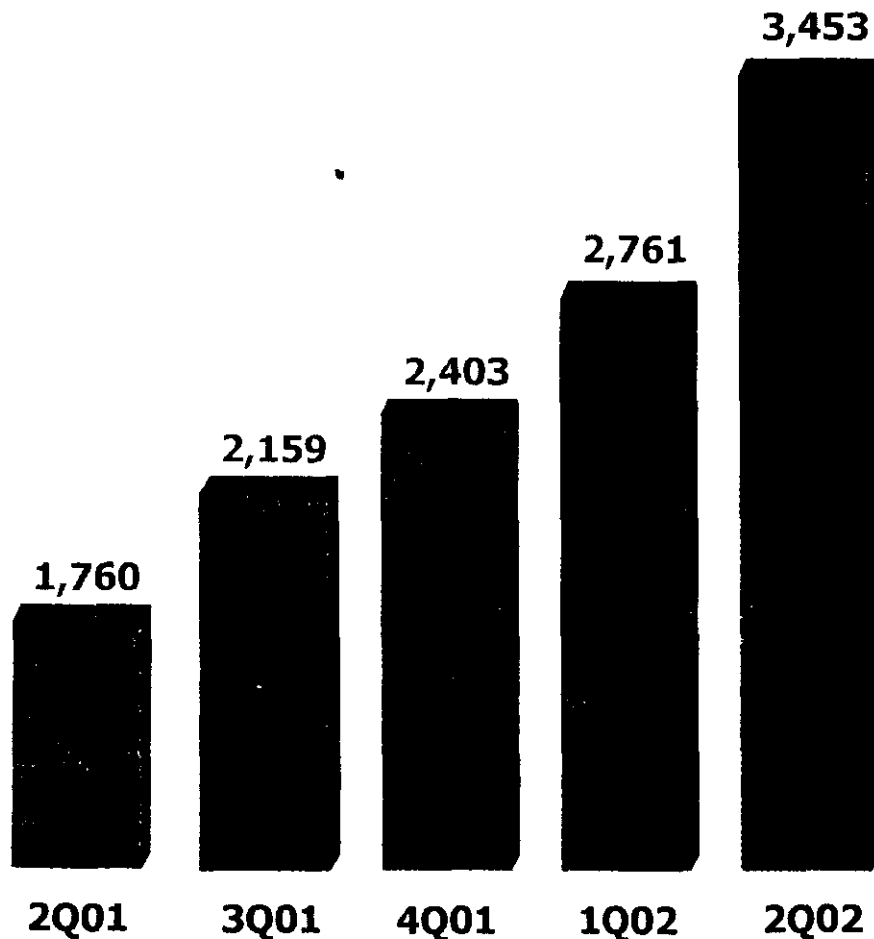
# Financial Review

Financial Trends  
**UNE-P Impacts**

Randall Stephenson  
Chief Financial Officer  
SBC Communications Inc.

# UNE-P Adoption

**SBC UNE-P Lines In Service**  
**2Q 2002**  
(in thousands)



Over the past year, UNE-P lines in service have doubled.

We have lost 3.5 million lines... nearly equivalent to losing the state of Ohio.

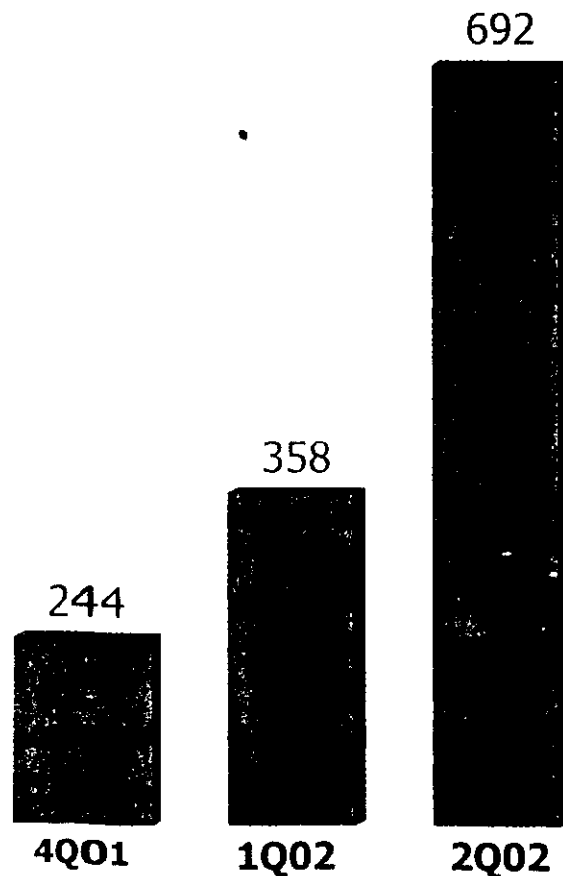
SBC still has 1 million resale lines likely to be converted to UNE-P.

SBC's market share is currently 85%. Projected to be 66% by end of 2003.



# UNE-P Acceleration

**SBC UNE-P Lines Added  
Per Quarter – 13 States**  
(in thousands)

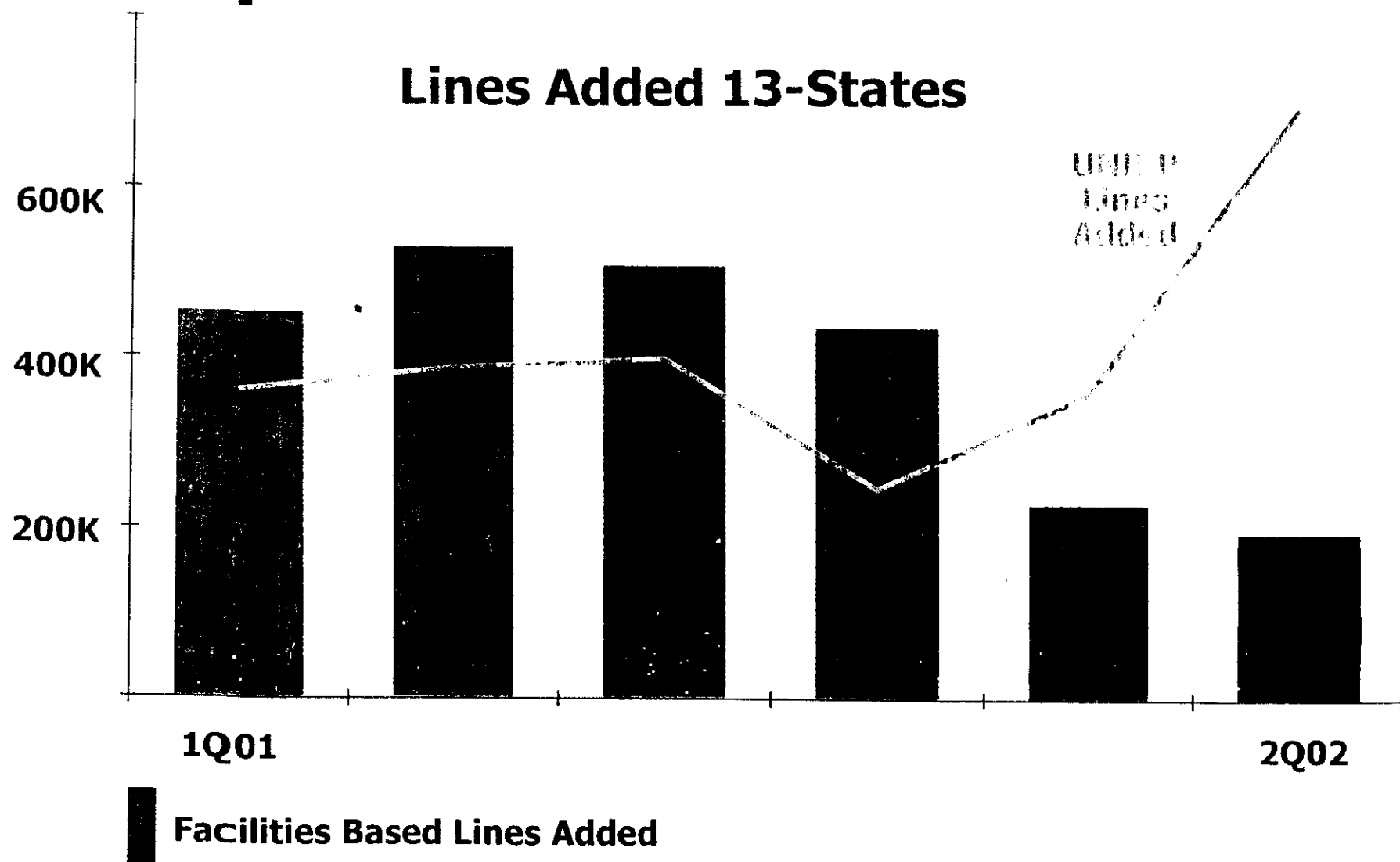


SBC loses 12,000 lines per day to UNE-P. Projected to be 29,000 per day by end of 2003.

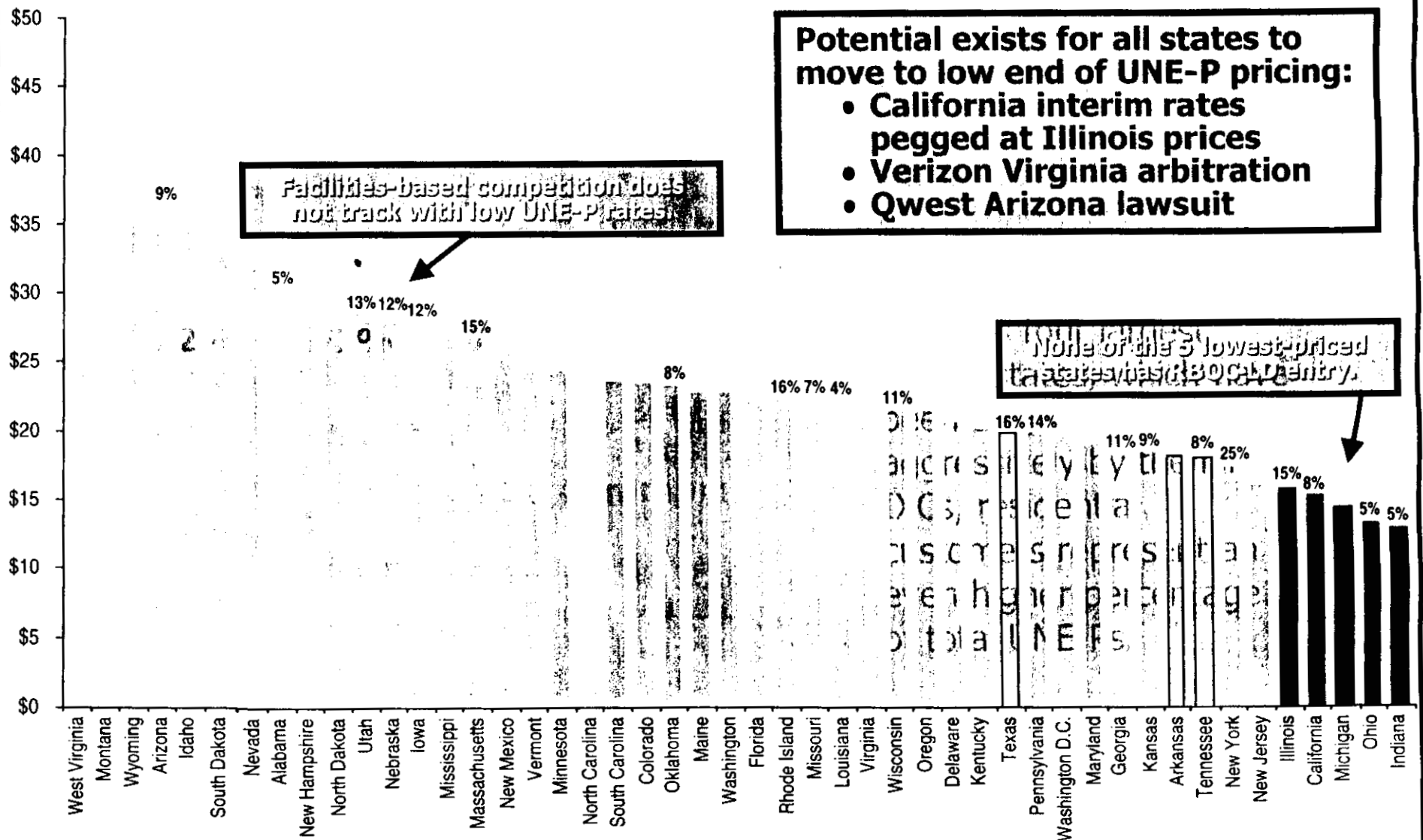
UNE-P lines added in 2Q02 were more than 70% greater than any previous quarter.

As states have dropped prices, facilities-based competition has lagged and UNE-P has become the dominant means to compete with SBC.

# Competition Trends

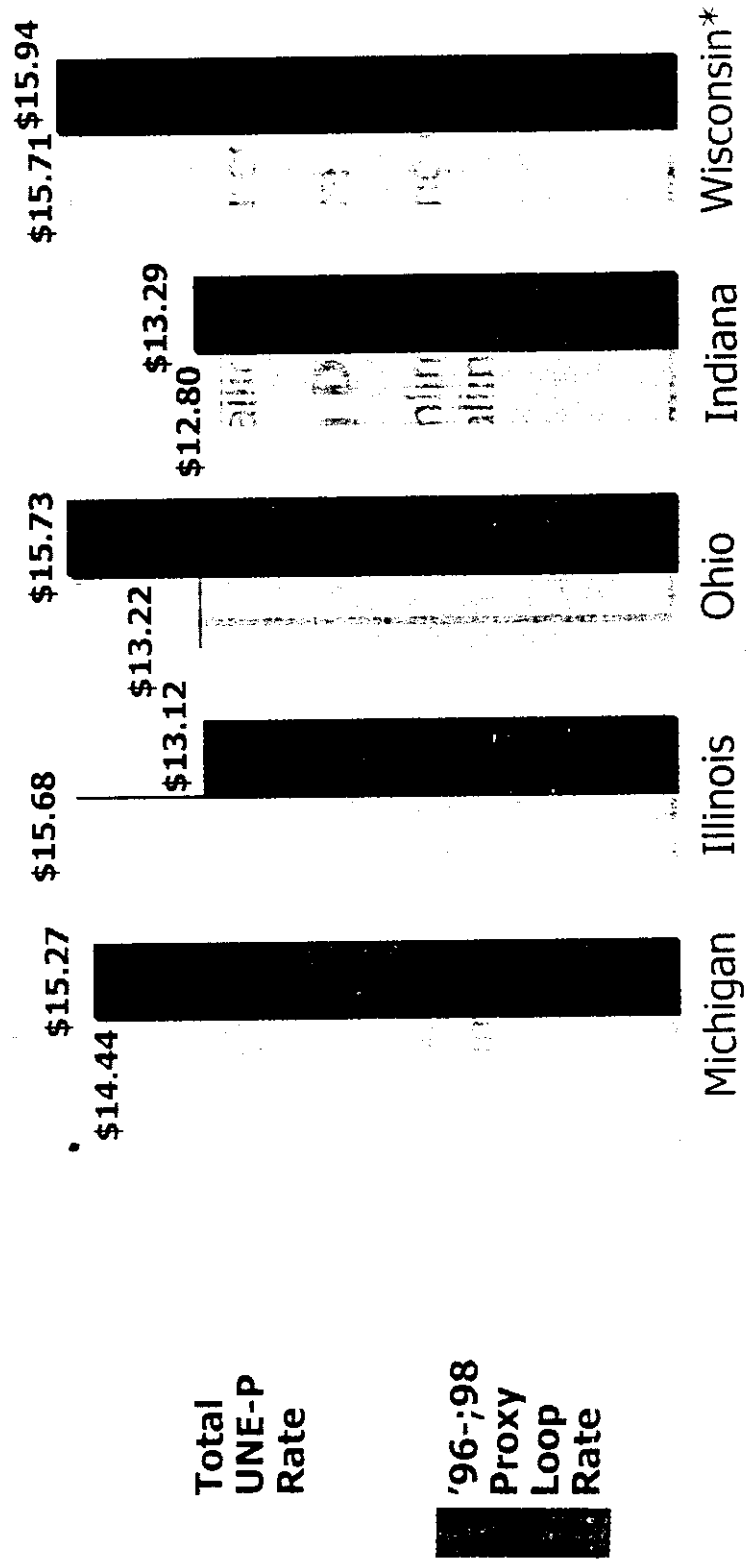


# The Five Lowest-Priced UNE-P States Are All SBC Markets



Percentage of end-user switched access line served by reporting competitive local exchange carriers source: FCC Industry Analysis Division Common Carrier Bureau, "Local Telephone Competition: Status as of December 31, 2001"

# UNE-P Rates vs FCC Proxy Loop Rates



\* Estimated impact of pending order.

# IXCs Exploit Very Large UNE-P Discounts

|             | Total Recurring<br>UNE-P Rate* | Discount<br>From Retail<br>Residential | Below Non-SBC<br>National Ave |
|-------------|--------------------------------|----------------------------------------|-------------------------------|
| Illinois    | \$15.68                        | 55%                                    | 39%                           |
| Michigan    | \$14.44                        | 63%                                    | 44%                           |
| Ohio        | \$13.22                        | 57%                                    | 48%                           |
| Indiana     | \$12.80                        | 62%                                    | 50%                           |
| California  | \$15.24                        | 47%                                    | 40%                           |
| Wisconsin** | \$15.71                        | 48%                                    | 39%                           |

**All have  
recently  
ordered  
lower prices**

\* Per Anna Marie Kovacs of Commerce Capital Markets, Inc. May report on UNE-P adjusted to reflect only recurring rates and recent rate changes.

\*\* Estimated impact of pending order.

# Simple Margin Transfer With No Investment

## Ameritech Consumer 5-State Averages

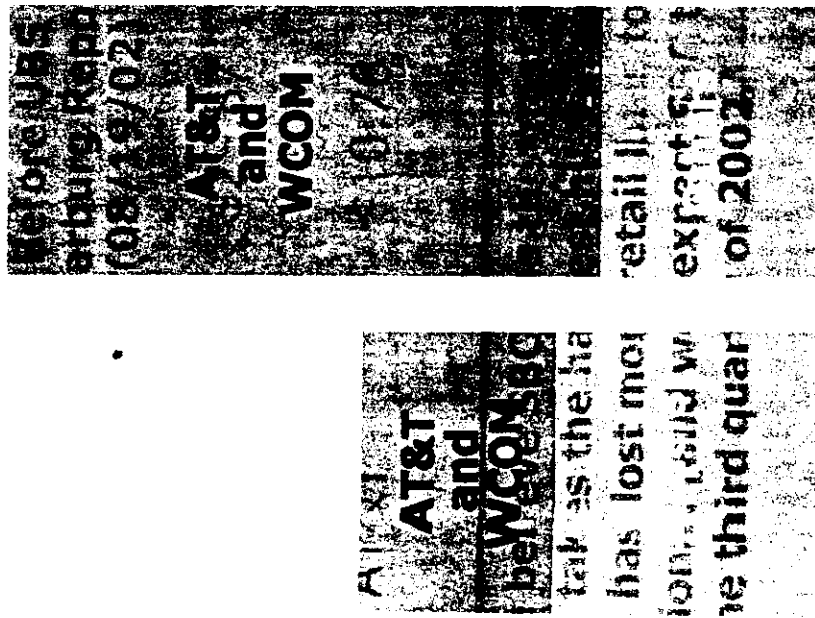
|                                       | <u>SBC<br/>Retail</u>               | <u>SBC UNE-P</u>                    | <u>IXC Using<br/>SBC UNE-P</u> |
|---------------------------------------|-------------------------------------|-------------------------------------|--------------------------------|
| Revenue                               | \$36                                | \$15                                | \$41                           |
| Expenses                              | *\$26                               | *\$26                               | **\$23                         |
| Operating Margin                      | \$10                                | \$(11)                              | \$18                           |
| Capital Investment                    | \$1,100                             | \$1,100                             | \$0                            |
| <i>Capital Investment</i>             | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input type="checkbox"/>       |
| <i>Service Quality<br/>Regulated</i>  | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input type="checkbox"/>       |
| <i>Universal Service<br/>Provider</i> | <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | <input type="checkbox"/>       |

\* Excludes cost associated with data services.

\*\* UNE-P plus 20% SG&A.

# UNE-P Predominantly Used by the Two Largest IXCs

## SBC UNE-P Lines Added Per Quarter



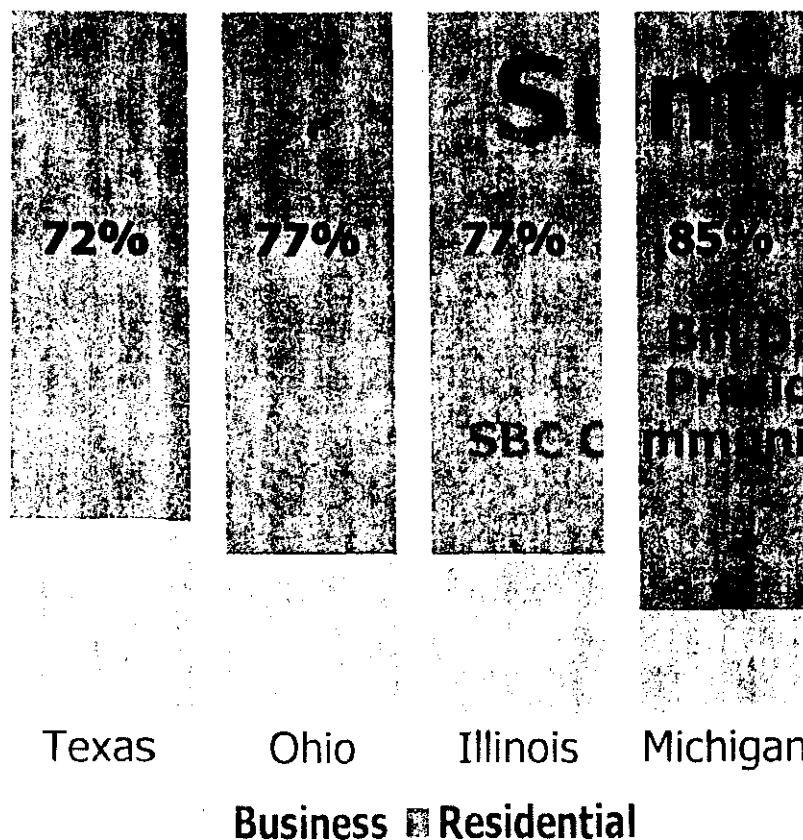
More than 70% of SBC's UNE-P lines added in 2Q02 were for the two largest IXCs.

From 1Q02 to 2Q02, UNE-P lines added for AT&T and WorldCom/MCI tripled while UNE-Ps added for others actually declined.

- WorldCom receivables to SBC and its affiliates have grown to more than \$400 million.

# Dominant Use of UNE-P: To Target Residential Customers

**SBC UNE-P Lines In Service  
SBC's Four Largest UNE-P States**



Across SBC's 13 states, more than 70% of all UNE-P lines are residential.

In SBC's four largest UNE-P states, which have been targeted most aggressively by the large IXC's, residential customers represent an even higher percentage of total UNE-Ps.



# IXC Lead Offers

(Ameritech states)

## AT&T

**Pricing: \$52.57 \***

### **Local Service**

Access line

Calling features (3)

### **Long Distance**

Unlimited to other AT&T  
residential consumers

## MCI/WCOM

**Pricing: \$49.99 \***

### **Local Service**

Access line

Calling features (5)

### **\* Long Distance**

Unlimited long distance  
calling

\* Pricing includes interLATA long distance but excludes Subscriber Line Charge and other miscellaneous taxes and fees.

Source: Company's website

- MCI's offer is their lead offering "Neighborhood Complete" at \$49.99
- AT&T's offer includes their lead local "Call Plan Unlimited with 3 Feature Package Enhanced" at \$29.95-34.95 and their long distance offer "Unlimited Plan" at \$19.95. Offered in IL, OH and MI.